# **International Issues Review**

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# Assistance to Workers in the Event of Mass Layoffs: West European Practice

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The major West European governments have introduced a variety of measures to assist workers affected by mass layoffs and thereby lower the political and social costs of phasing out inefficient industry. In France, West Germany, and the United Kingdom, workers affected by mass layoffs benefit from special severance payment and job creation programs, in addition to the mobility incentives and unemployment compensation available to all workers. The voluntary resignation programs appear to have been quite successful. Measures designed to attack structural unemployment have been less effective.

Although the United States faces many of the same problems as Western Europe, West European experience with worker assistance measures may not be directly applicable to the United States. Little precise information exists on the impact of some West European programs. More important, a given West European program would probably not have the same effect in the United States because of differences in the social and political environment.

#### Government Attitudes Toward Mass Layoffs

The West European populations now tolerate a far higher level of unemployment than would have been expected before the 1974-75 recession. Electorates have become politically more conservative, rather than radical, in reaction to the prolonged economic downturn. Nevertheless, unemployment remains a sensitive political issue--especially in the case of mass layoffs, which have a dramatic, highly visible impact on large numbers of workers. The unemployment rate is now over 6 percent in France, over 5 percent in the United Kingdom, and almost 3 percent in West Germany. Before the 1974-75 recession, the rate was two to three points lower in each country.

Until recently, the main intent of British and French industrial policy was to preserve employment and avoid the political and social risks associated with mass layoffs. Since that policy did not succeed in stemming the rise in unemployment and had a damaging impact on growth and prices, Paris and London have now started to imitate Bonn in trying to phase out inefficient manufacturing—in part by cutting back government subsidies. At the same time, they have launched a series of worker assistance programs designed to cushion the social and political impact of labor force reductions and outright plant closures. That effort is assisted in all three countries by the requirement that employers give the government advance notice of any substantial labor cutbacks.

#### Monetary Programs

All three governments try to reduce the number of actual layoffs by encouraging voluntary resignations of affected workers. In most traditional industries, early retirement plans with some government financing have become the rule. In selected firms, mixed public and private funds are increasingly being used to offer large lump-sum payments--termed "golden handshakes"--to workers who agree to resign. West Germany's Volkswagen offered "golden handshakes" in the mid-1970s, when it drastically cut domestic production. Surplus French steelworkers are currently being offered roughly \$10,000.

Workers who do not benefit from early retirement are entitled to generous unemployment compensation. Benefits were raised substantially--typically to about 70 percent of income--when unemployment started to increase in 1974 and 1975. Although payments usually decline over time, eligibility has been extended as average unemployment periods have lengthened.

## Mobility and Retraining Assistance

To attack the problem of unemployment directly, rather than to soften its impact, most governments have emphasized mobility and retraining programs. West Germany, France, and the United Kingdom offer between \$1,000 and \$3,000 to unemployed workers who agree to relocate. The payments cover moving costs and provide a direct grant as a mobility incentive.

Displaced workers who choose not to relocate can participate in government-sponsored, job-creation programs. Paris and Bonn offer temporary subsidies to firms that hire the unemployed. All three governments sponsor sizable retraining programs. In France, retraining is closely linked to employment opportunities created by officially encouraged investment projects. Of the three major West European governments, the French Government has been the most active in stimulating private investment in depressed areas. For example, it is now working to help establish a large automobile plant in the Lorraine that would absorb much of the redundant labor force from the steel industry.

### The Impact

The success of the West European worker assistance programs has varied widely. Measures to lessen the immediate political impact of mass layoffs by encouraging voluntary resignations have been quite successful. The early retirement option is being used. Like their counterparts at Volkswagen a few years ago, French steelworkers are opting for "golden handshakes." These payments have helped to defuse the once-virulent political opposition to labor cutbacks in the French steel industry; Paris believes that the program will prove much less expensive than continued production subsidies.

Government efforts to attack the longer run problems of structural unemployment have been less satisfactory. Relatively few workers have taken advantage of mobility incentives.

- -- Between November 1976 and May 1977, only 23,000 West Germans (about 3 percent of the unemployed population) received mobility premiums.
- -- The French relocation program targeted to younger workers benefits only 3,000 to 4,000 people a yearless than 1 percent of unemployed youth.

-- The UK Department of Employment estimates that most of the British workers who received mobility payments would have moved without the program.

Although part of the mobility programs' failure is likely due to the limited size of the benefits, the strong cultural resistance among the European working class to resettlement in another region accounts for most of the poor showing. In fact, the geographic immobility of West European workers has pushed all three governments to place more emphasis on finding alternative employment within depressed regions. One measure—subsidies to firms that hire the unemployed—has had little impact. Because the subsidies are temporary and government restrictions on firing workers can prevent firms from trimming labor costs, employers have resisted hiring workers who would not pay their own way in the long run.

The experience with retraining is mixed. It has proved most successful with younger workers; for older workers, it is often a means of delaying unemployment. More generally, the success of retraining programs has depended on regional employment possibilities. Because of its efforts to encourage investment in depressed areas, the French Government has been most successful in gearing retraining to actual job opportunities. In West Germany, retraining programs have worked well in economically stable or expanding regions but not in declining areas such as the Saarland and the Palatinate.

# Applying the West European Experience

West European - style worker assistance programs may not be directly applicable to US conditions. Some successful West European programs might be less effective in the United States. The requirement for advance notice of significant layoffs makes it easier for the West European governments to plan labor assistance measures. An interventionist government like France has a special advantage in designing retraining programs, since it has more direct control over posttraining employment prospects.

On the other hand, West European job creation programs must be focused in particular regions because the population is fairly immobile. US workers tend to be more flexible. That does not mean that mobility incentives might prove cost effective in the United States; as in the United Kingdom, they might be accepted primarily by workers who would relocate without them.

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